

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
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TO SECSTATE WASHDC IMMEDIATE 3457
DEPARTMENT OF ENERGY WASHDC IMMEDIATE
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN

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DOE FOR DEPUTY ASSISTANT SECRETARY BORRE

E.O. 11652: GDS
TAGS: ENRG, TECH, OVIP, IT
SUBJECT: VISIT OF DEPUTY SECRETARY OF ENERGY O'LEARY:
BRIEFING MATERIAL

REF: (A) ROME 10564; (B) ROME 9321; (C) ROME 8721; (D) ROME 10400

SUMMARY. FOLLOWING MATERIAL REVIEWS RECENT DEVELOPMENTS IN ITALY,
THE STATUS OF BILATERAL CONSULTATIONS ON NON-NUCLEAR R AND D
COOPERATION, AND ISSUES IN ENERGY FIELD THAT WE BELIEVE MAY BE
RELEVANT TO DEPUTY SECRETARY O'LEARY'S VISIT. IT IS INTENDED AS
SUPPLEMENT TO BRIEFING MATERIAL ALREADY PREPARED FOR VISIT AND TO
INDICATE ISSUES WE BELIEVE ARE MOST LIKELY TO BE RAISED.
END SUMMARY.

1. RECENT ENERGY DEVELOPMENTS IN ITALY.

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A. SOLAR ENERGY. MINISTER OF INDUSTRY DONAT-CATTIN SUB-
MITTED TO COUNCIL OF MINISTERS ON MAY 26 DRAFT LAW WHICH IS IN-
TENDED TO EXPAND THE ITALIAN MARKET FOR SOLAR ENERGY DEVICES THAT
PRESENTLY ARE NOT PRICE COMPETITIVE WITH CONVENTIONAL ENERGY
SOURCES. THE BILL WOULD (1) CREATE FINANCIAL INCENTIVES FOR
THE INSTALLATION OF SOLAR COLLECTORS BY ALLOWING EXEMPTIONS
FROM VALUE ADDED TAX AND PARTIAL DEDUCTION OF INSTALLATION

COSTS FROM TAXABLE INCOME AND (2) REQUIRE ENEL (STATE ELECTRIC POWER AGENCY) TO USE SOLAR TECHNOLOGIES TO PROVIDE ELECTRICITY TO THE 500,000 NON-ELECTRIFIED RURAL HOUSEHOLDS IN ITALY.

B. ITALIAN POSITION ON EC ENERGY PLAN AND REFINERY ISSUES. ITALY TOOK TOUGH POSITION AT MAY 30 EC ENERGY COUNCIL MEETING, INSISTING ON COMMUNITY-WIDE PLANNING OF REFINERY CAPACITY AS QUIDPRO QUO FOR ITALIAN SUPPORT OF PARTS OF THE DANISH ENERGY PACKAGE. ITALIANS ARE GREATLY CONCERNED ABOUT EXCESS REFINERY CAPACITY PROBLEM. THEIR OWN REFINERIES ARE OPERATING AT ONLY ABOUT 49 PERCENT OF CAPACITY (WHILE EUROPEAN AVERAGE IS ABOUT 60 PERCENT). ITALIANS BELIEVE EC ENERGY POLICY IS IN DANGER OF BEING WEIGHTED HEAVILY IN FAVOR OF NORTHERN EC MEMBER COUNTRIES AT ITALY'S EXPENSE. ITALIAN OFFICIALS HAVE NOT RAISED WITH US PROBLEM PRESENTED TO EC'S REFINERY PLAN OF U.S. OIL COMPANY NON-ADHERENCE DUE TO ANTI-TRUST PROVISIONS OF U.S. LAW.

C. ITALIAN MOVES ON URANIUM SUPPLIES AND ENRICHMENT SERVICES. ITALY HAS CONTRACTED FOR ENRICHMENT SERVICES FAR BEYOND LIKELY REQUIREMENTS IN THE 1980'S. THE RESULT IS A VIGOROUS SEARCH FOR NATURAL URANIUM SUPPLIES. WHEN ASKED WHY THEY LOOK FOR URANIUM RATHER THAN UNLOADING ENRICHMENT CONTRACTS, THE ITALIANS GENERALLY REPLY THAT THEY NEED TO BE ABLE TO GUARANTEE ENRICHED URANIUM SUPPLIES IN ORDER TO SELL NUCLEAR POWER PLANTS ABROAD. A SECOND POSSIBLE REASON, NEVER DISCUSSED PUBLICLY, MAY BE AN ITALIAN DESIRE TO HAVE COREDIF LOCATED IN ITALY.

D. POSSIBLE EXECUTIVE CHANGES AT CNEN, ENEL AND ENI. THE TERMS OF OFFICE OF EZIO CLEMENTEL, PRESIDENT OF CNEN LIMITED OFFICIAL USE

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(NATIONAL NUCLEAR ENERGY COUNCIL), AND OF ARNALDO ANGELINI, PRESIDENT OF ENEL (STATE ELECTRIC POWER AGENCY), ALREADY HAVE EXPIRED. THE TERM OF PIETRO SETTE, PRESIDENT OF ENI (STATE HYDROCARBONS ENTERPRISE), IS ABOUT TO EXPIRE. AT LEAST THE FIRST TWO MAY WELL BE REPLACED.

2. STATUS OF CONSULTATIONS ON NON-NUCLEAR ENERGY R AND D COOPERATION. (FOLLOWING UPDATES INFORMATION PROVIDED IN REF (B))

A. SOLAR. AS REPORTED PREVIOUSLY, ITALIANS ARE WORKING ON PROPOSALS FOR R AND D COOPERATION THAT ARE LIKELY TO INCLUDE A PROJECT ON PHOTOVOLTAICS, A PROPOSAL FOR A RURAL SOLAR PROJECT FOR SOUTHERN ITALY, AND A PROPOSAL FOR WORK ON A 5 MW SOLAR-ASSISTED GAS TURBINE OR OTHER CENTRAL SOLAR SYSTEM. WE NOW EXPECT THESE PROPOSALS TO BE RECEIVED BEFORE THE END OF JUNE (RATHER THAN MAY, AS PREVIOUSLY ANTICIPATED); A SOLA ENERGY EXPERT VISIT TO THE U.S. WOULD TAKE PLACE IN SEPTEMBER (RATHER THAN IN JULY). MEANWHILE, A DOE SOLAR COMMERCIALIZATION WORKING GROUP WILL BE VISITING MILAN AND GENOA DURING JUNE 13-15 AND ROME JULY 2-4. IN MILAN AND GENOA, THIS GROUP WILL MEET KEY FIGURES IN ITALIAN SOLAR INDUSTRY. DURING VISIT TO ROME, GROUP (AMONG OTHER THINGS) WILL MEET WITH A SELECT GROUP OF ITALIAN SOLAR EXPERTS FOR MUTUAL EXCHANGE OF INFORMATION ON

LOW-TEMPERATURE SOLAR PROGRAMS.

B. COAL. AS ALREADY REPORTED, ITALY HAS NO COAL R AND D PROGRAM, BUT CONTINUES TO BE INTERESTED IN USING HIGH-SULFUR, HIGH-ASH, LOW-HEAT CONTENT SULCIS (SARDINIA) COAL. WE WOULD THEREFORE REGARD ANY BILATERAL ACTIVITY IN THIS AREA AS COMMERCIAL INTENT, AND WE EXPECT THE ITALIANS TO SEND A COMMERCIALY-ORIENTED STUDY TEAM TO U.S. COAL DEMONSTRATION FACILITIES THIS FALL.

C. CONSERVATION AND BIOMASS FUELS. ALTHOUGH THERE IS LITTLE ACTIVITY IN THESE TWO AREAS IN CURRENT PERIOD IN WHICH WE ARE CONCENTRATING ON CLEARING PRESENT AGENDA, DOE OFFICIAL GERRY LEIGHTON WILL BE IN ITALY LATER IN JUNE TO SEE THE FIAT "TOTEM" (A STATIONARY INTERNAL COMBUSTION ENGINE THAT COULD BE RUN ON BIOGAS AND THAT COGENERATES HEAT AND ELECTRICITY) AND LIMITED OFFICIAL USE

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TO TALK INFORMALLY WITH THE ITALIANS ABOUT A POSSIBLE COMMUNITY SYSTEMS PROJECT UNDER IEA AUSPICES IN SICILY.

D. MEZZOGIORNO. THE NEW YORK POLYTECHNIC VISIT (RUBEN BROWN AND COMPANY) THIS MONTH (REF (B)) SEEMS TO HAVE BROUGHT CLOSER RELATIONSHIP BETWEEN THE POLYTECHNIC AND SICILIAN REGIONAL ORGANIZATIONS (THE SICILIAN REGIONAL GOVERNMENT AND THE CASSA PER IL MEZZOGIORNO, THE DEVELOPMENT BANK FOR SOUTHERN ITALY), BUT DESPITE REPEATED MISSION URGINGS (AND ASSISTANCE)

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NEW YORK POLY APPEARS TO HAVE MADE LITTLE, IF ANY, HEADWAY IN ESTABLISHING GOOD RAPPORT ON NATIONAL LEVEL WITH EITHER CNR (NATIONAL RESEARCH COUNCIL) OR ENI (THE STATE HYDROCARBONS ENTERPRISE). SINCE THE STUDIES PROPOSED BY NEW YORK POLY ON USE OF PORTION OF GAS TO BE RECEIVED THROUGH PROJECTED TRANSMEDITERRANEAN PIPELINE AND ON ALTERNATIVE ENERGY STRATEGIES FOR THE MEZZOGIORNO COULD CAUSE CONFLICT BETWEEN ITALIAN NATIONAL AND REGIONAL AUTHORITIES, WE TEND TOWARD THE VIEW THAT NEW YORK POLY NOT RPT NOT RECEIVE USG SUPPORT FOR ITS EFFORTS UNTIL SUCH TIME AS GOI CLEARLY SIGNALS ITS WELCOME. MEANWHILE, NEW YORK POLY CAN, OF COURSE, ACT AS A PRIVATE CONTRACTOR TO EITHER THE SICILIAN REGIONAL GOVERNMENT OR THE CASSA, SHOULD THOSE INSTITUTIONS SO DESIRE. ONLY OTHER MEZZOGIORNO ACTIVITY OF WHICH WE ARE AWARE IS ITALIAN PROPOSAL IN IEA FOR AN ALL-"RENEWABLES" FARM. WHILE WE DO NOT KNOW PRECISELY WHERE THIS PROJECT STANDS, WE ARE SURE THE ITALIANS WOULD APPRECIATE OUR SUPPORT FOR IT.

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E. GEOTHERMAL. PROGRESS CONTINUES TO BE GOOD IN BOTH THE CNR AND ENEL BILATERAL AGREEMENTS WITH GOE. IN ADDITION, WE BELIEVE THE ITALIANS WILL WANT TO TEST UNDER IEA AUSPICES THE U.S. HELICAL SCREW GENERATOR AND FLUIDIZED BED HEAT EXCHANGER THAT THEIR TEAM VISITED IN LATE MAY.

3. ISSUES WHICH MAY BE RAISED BY THE ITALIANS.

A. THE ITALIANS CONTINUE TO HOPE THAT THE U.S. WILL EVENTUALLY PROVIDE REPROCESSING AND ENRICHMENT TECHNOLOGY. WE HAVE REPEATEDLY REFUSED TO DO SO, GOING SO FAR AS TO PROHIBIT EXPORT TO ITALY OF DIODES USEFUL IN LASER ENRICHMENT RESEARCH (THOUGH ADMITTEDLY NOT RPT NOT USEFUL IN ACTUALLY SEPARATING ISOTOPES). THE ITALIANS MAY RAISE THIS EXPORT PROHIBITION ISSUE, EMPHASIZING THAT OUR POLICY MAY BE APPROPRIATE WITH SOME COUNTRIES BUT IS UNNECESSARY AND OFFENSIVE IN DEALING WITH AN ALLY THAT HAS SIGNED AND RATIFIED THE NON-PROLIFERATION TREATY (NPT). THE ITALIANS MAY ALSO RAISE THE ISSUE OF WHETHER, AFTER INTERNATIONAL NUCLEAR FUEL CYCLE EVALUATION (INFCE), WE MIGHT BE WILLING TO HELP THEM WITH REPROCESSING TECHNOLOGY, ESPECIALLY IF "TECHNICAL FIXES" ARE INCORPORATED THAT WOULD LESSEN THE PROLIFERATION RISK.

B. ITALIAN OFFICIALS HAVE RAISED IN BILATERAL ENERGY WORKING GROUP (EWG) SESSIONS THE ISSUE OF AN ASSURED URANIUM SUPPLY FROM THE U.S., AND THEY DID SO AGAIN IN AN AIDE MEMOIRE GIVEN US DURING THE RECENT ANDREOTTI VISIT TO WASHINGTON.

THEY ARE NOT RPT NOT CONCERNED WITH ENRICHED URANIUM, BUT
RATHER NATURAL URANIUM. THEY MAY WANT TO DISCUSS CURRENT U.S.
URANIUM SUPPLY PICTURE AND TERMS OF SUPPLY.

C. DURING ANDREOTTI VISIT TO WASHINGTON IN JULY 1977,
PRECEEDING AND SUBSEQUENT EWG SESSIONS AND THE RECENT
ANDREOTTI VISIT TO WASHINGTON, ITALY HAS PRESSED FOR MAXIMUM
EXIMBANK INVOLVEMENT IN FINANCING FOR ITALY'S NUCLEAR POWER PROGRAM.
EMBASSY UNDERSTANDS THAT WHILE EXIMBANK HAS AGREED TO CONSIDER
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ITALIAN REQUESTS SYMPATHETICALLY, IT IS STILL AWAITING LONG
PROMISED FINANCIAL AND OTHER PROJECT DATA FROM ENEL. RECENT INFO ON
ENEL CAPITALIZATION AND ELECTRICITY RATE INCREASES, WHICH
ARE NECESSARY PRELIMINARIES TO A SUBMISSION TO EXIMBANK,
CONTAINED IN REFS (C) AND (D).

D. ON GENERAL SUBJECT OF R AND D COOPERATION, ITALIANS
MAY REQUEST, AS IN ABOVE-MENTIONED AIDE MEMOIRE, MORE
"FLEXIBLE" INTERPRETATION OF CONCEPT OF MUTUAL BENEFIT TO
INCLUDE OTHER THAN IMMEDIATE TECHNOLOGICAL RETURNS, PAR-
TICULARLY IN COAL AND SOLAR FIELDS.

E. WE OWE THE ITALIANS AN ANSWER ON PROPOSED DOE-ENEL
AGREEMENT, WHICH WOULD INCLUDE BREEDERS, ULTRA-HIGH VOLTAGE
TRANSMISSION, POWER SYSTEMS CONTROL AND STRUCTURE, AND THE
EXISTING GEOTHERMAL AGREEMENT. WE THINK IT HIGHLY LIKELY
THAT THE ISSUE WILL BE RAISED DURING THE VISIT. A CLEAR,
AFFIRMATIVE ANSWER WOULD BE A CONCRETE INDICATION OF OUR GOOD
WILL. WE HASTEN TO ADD THAT SINCE THE PROPOSAL FOR THIS
AGREEMENT HAS ALWAYS BEEN JUSTIFIED BY DOE ON THE BASIS OF
TECHNOLOGICAL RETURN TO THE DOMESTIC U.S. ENERGY PROGRAM, THE
GOOD WILL WOULD PRESUMABLY BE COST-EFFECTIVE.

F. WE THINK IT LIKELY THAT ITALIANS WILL INQUIRE
ABOUT STATUS OF U.S. ENERGY LEGISLATION AND EFFECTS IT IS NOW
EXPECTED TO HAVE, ONCE APPROVED, ON U.S. ENERGY IMPORTS.

G. IT IS ALSO LIKELY THAT ITALIANS WOULD WANT OUR
APPRAISAL OF WORLD PETROLEUM SUPPLY, CONSUMPTION AND PRICE
OUTLOOK. HOLMES

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